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August 31, 1993

By Hand Delivery

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Washington, D.C. 20554

Re: MM Docket No. 93-215

Dear Mr. Caton:

On behalf of the 34 MSOs and four state associations listed in footnote 1 to the "Comments of Cable Operators and Associations" filed August 25, 1993 in the referenced proceeding, we hereby submit pages 5 and 22, inadvertently omitted from Exhibit F to those Comments (Report of AUS Consultants).

We are submitting an original and four copies of the omitted pages.

Respectfully submitted,

John D. Seiver
Counsel for Cable Operators and State Associations

Attachments

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industry) had an end of 1992 market-to-book ratio for common equity of 2.9[8] while the recreation industry had an end of 1992 market-to-book ratio for common equity of 3.3.[9] The telecommunications industry, at the end of 1992, had a market-to-book ratio for common equity of 1.8.[10]

During the 1988 to 1990 period, when many cable systems were acquired by their current owners, other non-cable companies were acquired at multiples substantially above those for the cable systems. While the prices paid for cable systems were high relative to book value, these prices in relation to book value were similar to those for telecommunications, broadcasting, and recreation industry. Therefore, the prices paid for cable systems are not "too high" relative to prices paid for other similar companies. Most importantly, however, there is no reason to expect that the cable systems would have been sold for an amount equal to the depreciated original cost of their tangible assets. In fact, non-regulated companies typically are valued at several multiples of their book value, and this book value most likely includes intangible as well as tangible assets.

Further, contrary to apparent regulatory wisdom, the sale of a system need not result in higher subscriber fees than would have been changed by the original owner. If the original owner had kept subscriber fees low to build system penetration, this original owner also would have had to raise subscriber fees to earn an unreasonable return on invested capital. Alternatively, the original owner may sell the system for an amount that provides him with a reasonable return for the period that he operated the system and the new owner will be the one raising rates. Finally, if a small stand-alone system is acquired by an MSO, economics of scale and scope can be realized.

[8]Value Line's broadcast group of companies, end of 1992.

[9]Value Line's recreation industry group of companies, end of 1993.

[10]Value Line's telecommunications industry.

for traditional utililties. The basis of the transition period being 10 years is the fact that the tangible assets employed by cable systems as a composite are depreciated over a 10-year period. Implicitly, within the next 10 years, the existing property currently on the books will be retired and replaced. The original cost of the new property or replacement property would be recorded. At the end of approximately 10 years, tangible assets would be valued at original cost. Moreover, because investors have at arm's length paid a price in excess of the value of the tangible assets they acquired in recognition of avoidance of earlier year losses, interest during construction, the value of the franchise, the value of a trained work staff, the existence of systems and procedures and other such costs should be amortized over 10 years so that after this period of time there will be no intangible assets. We recommend that this procedure be adhered to as a practical and fair methodology with the only caveat being that the cable company in question need demonstrate that the price it paid when it acquired the existing system was no more than what similar systems were selling for at about the time of such sale. This would preclude earning a return on excessive investment.

Tangible properties do not necessarily comprise the preponderance of assets for cable television systems. Failure to include in rate base all booked costs, prudently incurred, would amount to confiscation. Purchasers of cable systems anticipated the earnings power of their purchase. Disallowance of any part of that earning power diminishes the value of the purchaser's assets. This diminution of value is equivalent to confiscation in that earnings power is removed without compensation.

If the measure of value for cable systems is limited to the original cost of tangible assets only, there is the possibility that the price of service reflecting the opportunity to earn a fair return, might not even cover interest expense related to existing outstanding debt. Under these circumstances, the ability of the cable system to attract additional or replacement capital on reasonable terms is precluded. Continuing development of services desired by the public will thereby be hampered. It would constitute a form of confiscation of investment legitimately made by investors.